

**State Employees Deferred Compensation Plan of Illinois**  
**Loan Program Policy**

The purpose of the Loan Program Policy (“Policy”) is to establish a loan program for the Participants of the State of Illinois Deferred Compensation Plan (“Plan”). This Policy may be modified, in whole or in part, by the Illinois State Board of Investment (“Board”) at any point in time. The assets of the Plan shall be maintained in compliance with all applicable laws governing the operation of the Plan. Capitalized terms not defined herein are defined by the Illinois Administrative Code (80 Ill. Adm. § 2700.200).

The following outline identifies the Board’s Loan Program Policy.

I. Loan Application and Initiation

- a. A Plan Participant may apply for a loan from the Plan. Participant Beneficiaries and alternate payees under the Plan shall not be eligible for a loan under this Policy.
- b. A Participant can only have one outstanding loan at a time (across all qualified Employer plans) and may not apply for a second loan until the first loan is paid in full. A Participant may apply for a loan as soon as the previous loan is paid in full; there is no waiting period. The Recordkeeper shall notify all prospective borrowers of the one-loan limitation prior to processing a loan.
- c. A Participant must contact the Recordkeeper (via telephone or online) in order to initiate a loan. If a Participant meets the Plan requirements for eligibility and certifies that he or she has no other outstanding loan across all qualified Employer plans (including any deemed loan) then the Participant may initiate a loan. In order to initiate a loan, a Participant will be required to provide banking information to allow for ACH Debit and agree to the terms and conditions of the Recordkeeper’s ACH Debit set up.
- d. The Recordkeeper will verify a Participant’s banking information through a pre note process; if the pre note is rejected, the Participant will be automatically notified that action must be taken to correct the banking information provided in order to initiate the loan.
- e. If the loan initiation is confirmed prior to the earlier of 4 p.m. EST or the close of the New York Stock Exchange (hereinafter “Day 1”), the Participant’s account will be updated (“Issue Date”) that same day. If the loan initiation is confirmed after Day 1, the Issue Date will be the following business day. A loan check will be generated and mailed to the Participant’s address of record within two (2) business days from the Issue Date; upon request, a loan check may be mailed via Federal Express, at the cost of the Participant.

- II. A loan origination fee of \$75 will be extracted from the Participant's account on the Issue Date. In addition, redemption fees may be extracted from the Participant's account if the account contains investments that access redemption fees on loans. Neither the loan origination fee nor redemption fees, if applicable, will offset the loan amount.
- III. Loan Amount
- a. The principal amount for any loan shall be for an amount equal to at least \$1,000.00 and shall not exceed the lesser of (i) fifty percent (50%) of the value of the sum of (A) the Participant's Account Balance and (B) the Participant's rollover account, if applicable or (ii) \$50,000.00 reduced by the highest outstanding balance of loans from all qualified Employer plans (i.e., pension loans, 403(b) and other deferred compensation loans) from the preceding twelve (12) months.
  - b. Any amount in a Participant's installment account or an account established by a Participant for a Beneficiary or an alternate payee shall be excluded from the Participant's Account Balance in determining the amount available for purposes of subsection (a) of this Section.
- IV. A loan may be made for any purpose; however, a Participant should seek independent tax advice prior to initiating a loan under this Policy.
- V. Evidence and Terms of a Loan
- a. Once a loan is approved by the Recordkeeper, the Participant shall execute a promissory note in the form prescribed by the Recordkeeper. A copy of the promissory note is maintained by the Recordkeeper; the original is mailed to the Participant's address of record.
  - b. All loans shall provide a fixed rate of interest of one percent (1%) above the prime interest rate as published in the Wall Street Journal on the day prior to the Issue Date.
  - c. The interest rate of an outstanding loan shall remain fixed throughout the life of the loan; a loan may not be refinanced for any reason.
  - d. All loans shall be secured, as of the Issue Date, by the sum of (i) the Participant's Account Balance and (ii) the Participant's rollover account, if applicable; however, no more than fifty percent (50%) of the Participant's Account Balance shall be used to secure the loan.
  - e. All loans must be taken for at least one (1) year up to a maximum of five (5) years.

- f. Each month, the Recordkeeper will generate an audit report for the Board and the Department, detailing all initiated loans.

## VI. Loan Repayment

- a. The loan shall be repaid monthly in substantially equal installments of principal and accrued interest under a level amortization schedule.
- b. Loans shall be repaid via ACH Debit on the first business day of the month following the Issue Date (hereinafter, “Debit Date”). Successful repayments will be applied to a Participant’s loan five (5) business days following the Debit Date (hereinafter, “Payment Date”).
- c. For any loan repayment not successfully debited, the Participant will be notified of the rejected payment and will be given the following options to correct the payment, so long as the earlier of (i) the last business day of the calendar quarter following the calendar quarter in which the Participant failed to make the loan payment or (ii) the date the benefits are distributed to a terminated Participant either through a total distribution, partial distribution or election of installment payments (hereinafter, the “Cure Period”) has not lapsed:
  - 1) Pay the total amount of each current rejected loan payment;
  - 2) Catch up on loan payments on the next scheduled Payment Date (which includes the amount for each rejected loan payment plus the next scheduled payment amount); or
  - 3) Pay off the entire loan balance in full.
- d. The Participant has the right to pay the entire loan balance before its due date by contacting the Recordkeeper and requesting the loan’s outstanding balance, which shall include unpaid principal and accrued interest. Such payoff may be made via ACH debit, certified check, cashier’s check or money order. Upon payoff, the Recordkeeper will mail a letter of payoff confirmation to the Participant.
- e. If the amount of payment submitted by a Participant to the Recordkeeper to satisfy the entire loan balance exceeds the Participant’s current loan balance, the Recordkeeper shall return the overage to the Participant in the form of a check. If the amount of payment submitted by a Participant to the Recordkeeper to satisfy the entire loan balance is less than the Participant’s current outstanding loan balance, the Recordkeeper will notify the Participant and request additional funds. If the remaining balance is not received by the Recordkeeper within one (1) week of the notification, the entire amount submitted will be returned to the Participant.
- f. The Plan does not permit partial pre-payment or partial advance payment of future loan payments.

- g. All loan disbursements, along with any loan origination or redemption fees, shall be debited pro rata across all investment funds and available contribution types within the Participant's account in effect on the Debit Date. Principal repayments and interest payments shall be reinvested in the Participant's account in accordance with the Participant's investment elections in effect on the Payment Date.
- h. Unless the Participant is on military leave, as set forth in Section VIII of this Policy, the terms of outstanding loans are not subject to renegotiations with the following specific exemptions: (i) if the Participant's repayment of a loan is delayed through no fault of his or her own and the loan payment has not yet been entered into the ACH Debit system, the loan will be re-amortized by the Recordkeeper and (ii) if, through an ACH Debit system error, the Participant's repayment of a loan ceases to be taken, the loan will be re-amortized as soon as the error is discovered. Under the limited circumstances outlined in this provision, the loan may be re-amortized but under no circumstances may the loan extend beyond the terms allowed pursuant to this Policy. The Recordkeeper shall notify the Board and the Department of any re-amortization.
- i. The Participant is responsible for notifying the Recordkeeper of any failure of loan repayments to be initiated or otherwise made in accordance with the terms of the loan.

## VII. Default/Risk of Loss

- a. Pending final disposition of the promissory note evidencing the loan, the Participant remains obligated for any unpaid principal and accrued interest.
- b. A loan becomes delinquent following a missed scheduled payment. The Recordkeeper shall treat a delinquent loan in default if (i) the repayment of the delinquent loan is not made within the Cure Period or (ii) there is the making or furnishing of any representation or statement to the Plan by or on behalf of a Participant which proves to have been false in any material respect when made or furnished.
- c. The Cure Period will be static, beginning on the date of the first missed scheduled payment (based upon the amortization schedule on file with the Recordkeeper) and end on the last business day of the calendar quarter following the calendar quarter that includes the first missed scheduled payment date. Partial payments are considered delinquent payments. All delinquent payments must be received by the Cure Period end date in order to cure the loan and bring it current. If all delinquent payments are not received by the Cure Period end date, the loan will be deemed or offset at the end of the Cure Period.

- d. A default will be considered a deemed distribution upon the following (i) the Participant's failure to satisfy a scheduled loan payment, (ii) expiration of the Cure Period, (iii) the Participant's failure to be identified as a terminated employee and therefore not eligible to receive a distribution from the Plan, and (iv) the Participant's failure to be identified as being eligible for an exception to default (i.e., leave of absence for military service). A default will be considered an offset upon the following (i) the Participant's failure to satisfy a scheduled loan payment, (ii) expiration of the Cure Period, and (iii) the Participant's identification as a terminated employee and therefore eligible to receive a distribution from the Plan. A default treated as a deemed distribution is a taxable event under the terms of the Plan. Defaulting Participants will be issued a 1099R by the Recordkeeper in January of the year following the deemed distribution for the taxable portion of the unpaid loan balance.
- e. Each month, the Recordkeeper will generate an audit report for the Board and the Department, detailing all loan delinquencies.
- f. A Participant who has defaulted on a loan made under the Plan, or any other qualified Employer plan, which is not repaid shall not be eligible to obtain a future loan under this Policy.

#### VIII. Military Leave

- a. This policy is in compliance with the provisions of the Uniformed Services Employment and Reemployment Rights Act ("USERRA") contained in chapter 43 of title 38 of the United States Code of Servicemembers Civil Relief Act ("SCRA") of 2004.
- b. The Board permits the Plan to suspend the Participant's loan payments for periods during which he or she is performing military service. A leave of absence for military service will not cause the loan to be deemed distributed, even if the leave exceeds one (1) year.
- c. Loan payments must resume upon the Participant's return to work.
- d. The entire loan must be repaid within the original term, plus the period of military service performed by the Participant. Loan payments can be revised at the end of military leave to extend the repayment schedule.
- e. Interest on the loan continues to accrue at the rate shown on the promissory note during a leave of absence for military service; however, in the event the interest rate on the loan is more than six percent (6%), which is the maximum rate permitted under SCRA, then the interest rate may be reduced to six

percent (6%) during the period of the Participant's military leave, upon election of re-amortization by the Participant.

#### IX. General Policies and Procedures

- a. All Plan loans shall be made from the assets of the Plan and promissory notes evidencing such obligation shall be considered assets of the Plan. For purposes of this Policy, assets of the Plan includes cash and other rights and properties arising from payroll contributions, transfers and rollover contributions which are held and administrated by the Recordkeeper.
- b. Prior to submitting a hardship request for distribution, the Participant must apply for a loan under this Policy. The Plan reserves the right to approve a hardship distribution request without requiring the Participant to first apply for a loan under this Policy. If the Participant has an outstanding loan under this Policy, any amount of the outstanding loan shall not be considered for purposes of a hardship distribution.
- c. The Board will not allow the payoff of an outstanding balance of a loan with assets from the Participant's account until the Participant is eligible to receive a distribution under the Plan.
- d. If a terminated Participant with an outstanding loan balance seeks a rollover to an IRA or another supplemental retirement plan (i.e., 401(k) or 403(b)) the Board will require an offset of the outstanding loan balance with assets from the Participant's account before sending the remaining assets to the successor custodian/trustee.
- e. The Plan will not accept an incoming rollover of assets from another supplemental retirement plan or an IRA that has an outstanding loan balance counted as an asset. All loan balances in a prospective rollover must be paid in full to the originating plan or IRA before an incoming rollover will be accepted by the Plan.
- f. In the event a Participant dies with an outstanding loan, the loan will be offset as of the earlier of (i) the date of the Participant's death or (ii) the Cure Period end date. If a Participant should die prior to the disbursement of the proceeds of any Plan loan request, the Participant's loan request shall be void as of the date of death and the proceeds shall not be disbursed, so long as the Recordkeeper is notified of the Participant's death prior to the disbursement of the proceeds.

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